

NEW YORK STOCK EXCHANGE LLC

NYSE HEARING PANEL DECISION 06-15

May 10, 2006

CITIGROUP GLOBAL MARKETS, INC.
MEMBER ORGANIZATION

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Violated NYSE Rule 342 in that Respondent failed to provide for appropriate supervisory control of certain business activities, including separate system of follow-up and review to assure compliance with NYSE rules and federal securities laws, relating to its internal audit/examination process and creation and maintenance of its books and records; violated Section 17(a) of Securities Exchange Act of 1934 and Rules 17a-3 and 17a-4 thereunder and NYSE Rule 440 by failing to properly and accurately preserve certain books and records – Consent to censure and \$250,000 fine.

Appearances:

For the Division of Enforcement
Linda S. Riefberg, Esq.
Myles L. Orosco, Esq.
Gino F. Ercolino, Esq.

For Respondent
Melvin Williams, Jr., Esq.

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A Hearing Panel of the New York Stock Exchange (“NYSE” or “Exchange”) met to consider a Stipulation of Facts and Consent to Penalty entered into between the NYSE’s Division of Enforcement (“Enforcement”) and Citigroup Global Markets, Inc. (“CGMI” or “Respondent” or the “Firm”), a member organization. Without admitting or denying guilt, Respondent consented to a finding by the Hearing Panel that it:

- I. Violated NYSE Rule 342 in that Respondent failed to provide for appropriate supervisory control of certain business activities, including a separate system of follow-up and review to assure compliance with NYSE rules and federal securities laws, relating to its internal audit/examination process and the creation and maintenance of its books and records.
- II. Violated Section 17(a) of the Securities Exchange Act of 1934 and Rules 17a-3 and 17a-4 thereunder and NYSE Rule 440 by failing to properly and accurately preserve certain books and records.

For the sole purpose of settling this disciplinary proceeding, Enforcement and Respondent Firm stipulate to certain facts, the substance of which follows:*

Background and Jurisdiction

1. CGMI is a member organization of the Exchange.¹ During the period between December 1996 and March 2003, the Firm operated first under the name Smith Barney Inc., and after a merger with Salomon Brothers, Inc., the Firm subsequently operated under the name Salomon Smith Barney, Inc. The Firm provided services including investment banking, underwriting debt and equity securities and advising corporations, governments and institutions, as well as acting as a full-service global broker-dealer engaged in, among other things, retail brokerage of stocks and market making. The Firm has approximately 804 registered retail offices and 18,235 employees. In April 2003, Salomon Smith Barney Inc. was renamed Citigroup Global Markets Inc.
2. On or about April 10, 2003, CGMI filed with the Exchange Uniform Termination Notices for Securities Industry Registration (“Forms U-5”) reporting the termination or resignation of four CGMI employees from the Firm’s Englewood, Colorado branch office (the “Englewood Office”) for their failures to follow Firm policy and procedures in connection with an internal branch audit.⁺
3. On or about October 8, 2003, the Firm filed with the Exchange, Submissions of Required Information Pertaining to Members, Member Organizations, Allied Members, Registered and Non-Registered Employees and Approved Persons (“Forms RE-3”) reporting that, in connection with misconduct relating to internal branch audits/examinations at its Palo Alto, California branch office (the “Palo Alto Office”), the Firm suspended five employees and that it fined three of these employees.⁺⁺

* Hearing Panel Note: The facts, allegations, and conclusions contained in paragraphs 1 to 19 are taken from the executed Stipulation of Facts and Consent to Penalty between Enforcement and Respondent. No changes have been made to the stipulated paragraphs.

¹ The current Firm was formed in 1997 when Smith Barney Holdings Inc., the brokerage arm of Traveler’s Group, was combined with Salomon Smith Barney Holdings Inc. In 1998, Salomon Smith Barney, the brokerage arm of Salomon Smith Barney Holdings, Inc., became an affiliate of Citigroup, which was the result of a merger between Citigroup and Traveler’s Group.

⁺ Hearing Panel Note: These four employees were sanctioned in separate NYSE disciplinary actions. See In re Richard A. Walsh, Decision 06-28 (NYSE Hearing Panel, May 10, 2006); In re Constance R. Reseigh, Decision 06-29 (NYSE Hearing Panel, May 10, 2006); In re Madeleine M. McBride, Decision 06-30 (NYSE Hearing Panel, May 10, 2006), In re William R. West, Decision 06-31 (NYSE Hearing Panel, May 10, 2006).

⁺⁺ Hearing Panel Note: Several of these employees were sanctioned in separate NYSE disciplinary actions. See In re Kim R. Mastel, Decision 06-25 (NYSE Hearing Panel, May 10, 2006); In re Patricia C. Fanella, Decision 06-26 (NYSE Hearing Panel, May 10, 2006), In re Olivia Bowles-Kymer, Decision 06-27 (NYSE Hearing Panel, May 10, 2006).

OVERVIEW

4. As set forth in detail below, in connection with certain internal audit/examination practices between 1997 and 2003 (the “relevant period”), CGMI violated Exchange Rules and federal securities laws in that it failed to provide for appropriate supervisory control, including a separate system of follow-up and review, and failed to properly and accurately preserve certain books and records. Relevantly, employees of at least two of the Firm’s branch offices altered, concealed and fabricated certain documents in an effort to pass internal examinations. The Firm did not provide for adequate supervision, or management of books and records, with regard to trade blotters, order tickets, correspondence, trade errors and other items in that employees from both the Englewood and the Palo Alto Offices were able to hide, alter and fabricate such documents in an effort to pass the Firm’s internal audits.

Failure to Provide for Appropriate Supervisory Control

5. During the relevant period, CGMI had in place certain procedures to be followed by branch management teams in the performance of their supervisory responsibilities. These procedures included delegation memoranda, attestations by branch office managers (“BOMs”) of the performance of their duties, and branch self-examination reports. While a BOM could delegate certain tasks and responsibilities, such as the review of certain documents, the BOM was still responsible for ensuring that the delegated duties were being performed.
6. In accordance with Exchange Rule 342 and pursuant to Firm policies and procedures, documents requiring supervisory review, such as trade blotters and order tickets, had to include evidence of the supervisory review. Even if the BOM delegated the responsibility of such review to another member of his/her management team, the BOM would still be responsible for following up and ensuring that the relevant documents were being reviewed and that they evidenced such review. The Firm, however, had no adequate supervisory oversight to ensure that the BOM or the delegate was properly reviewing trade blotters and order tickets.
7. During the relevant period, the BOM of the Englewood Office delegated the responsibility for the review of order tickets and/or trade blotters to various members of his management team. However, the BOM did not follow-up to ensure that the trade blotters or order tickets were being reviewed. As a result, on numerous occasions between January 2000 through early 2003, trade blotters and/or order tickets failed to evidence any supervisory review.
8. In addition, during the relevant period, the Firm’s Branch Examinations Department conducted annual branch examinations. Firm examiners were responsible for reviewing the operational and procedural areas of each branch including sales practice, trades and corrections, account documentation, correspondence, wire and order functions, record retention and the overall supervision of the branch. Prior to September 2003, the Firm did not have any written policies or procedures regarding pre-examination preparation.

9. Prior to its institution of an on-line trade blotter review system, CGMI used its internal examinations to discover certain deficiencies in branch operations, such as deficiencies in the review of trade blotters, order tickets and other documents. As per Firm procedure, the examiners notified branch offices in advance of their audits and provided in advance, a list of certain documents to be pulled for review. The Firm did not, however, have any policies or procedures in place that instructed employees about what should be done in the event they discovered non-compliant documents while preparing for an audit.
10. As a result of the above referenced supervisory control failures, branch office personnel, including supervisory personnel, were able to engage in improper conduct in preparation for internal examinations without being prevented or detected by the Firm. Both the Englewood and the Palo Alto Offices were able to evade detection because they were always notified in advance of the dates of the examinations and certain documents that were to be reviewed.
11. In preparation for the Firm's 2003 internal examination of the Englewood Office, branch office personnel altered, concealed and fabricated certain documents such as trade blotters, order tickets, reports and correspondence that were to be reviewed by the Firm's examiners. This misconduct followed the Englewood Office's failure of three earlier internal examinations that were conducted in 1999, 2001 and 2002.
12. Further, in preparation for internal examinations of the Palo Alto Office during the period 1997 through 2001, branch office personnel altered and concealed documents such as order tickets, trade errors and correspondence that were to be reviewed by the Firm's examiners. Nevertheless, the Palo Alto Office failed three internal examinations that were conducted in 1999, 2000 and 2001.
13. During the course of Enforcement's investigation into the misconduct at the Englewood Office, the Firm contacted Enforcement in or about early October 2003 and advised that it was going to file Forms RE-3 reporting internal examination misconduct at its Palo Alto Office. On October 8, 2003, the Exchange received such Forms RE-3.
14. After the Firm discovered the misconduct at the Palo Alto Office, the Firm undertook a supplemental investigation into the pre-examination practices of certain other branch offices.
15. Specifically, the Firm reported to the Exchange that its investigation disclosed three relatively minor instances of additional pre-examination misconduct at the Berkeley and Santa Rosa, California branch offices in which initials were added to documents to evidence supervisory review.
16. Also, the Firm implemented additional procedures to prevent the recurrence of problems associated with its internal examination process, like those that occurred at

the Englewood and the Palo Alto Offices. Among other things, these enhanced procedures provide for unannounced branch examinations and unannounced document requests in connection with branch examinations. Furthermore, the Firm now requires each branch to certify that they have not altered, destroyed or withheld documents in connection with any such examination.

Books and Records

17. Exchange Rule 440 requires that “every member organization shall make and preserve books and records as the Exchange may prescribe and as prescribed by Rule 17a-3. The record keeping format, medium and retention period shall comply with Rule 17a-4 under the Securities Exchange Act of 1934.”
18. By failing to provide for appropriate supervisory control relating to its internal examination process and the creation and maintenance of its books and records, certain Firm employees at the above referenced branch offices were able to alter, conceal and fabricate certain documents that the Firm was required to maintain in accordance with Exchange Rules and federal securities laws.
19. Accordingly, the Firm failed to properly and accurately preserve certain books and records in violation of Section 17(a) of the Securities Exchange Act of 1934 and Rules 17a-3 and 17a-4 thereunder, and Exchange Rule 440.

DECISION

The Hearing Panel, in accepting the Stipulation of Facts and Consent to Penalty, found Respondent guilty as set forth above by unanimous vote.

PENALTY

In view of the above findings, the Hearing Panel, by unanimous vote, imposed the penalty consented to by Respondent of a censure and a \$250,000 fine.

For the Hearing Panel

Vincent F. Murphy - Hearing Officer
Panelists:
Paul W. Brandow
John S. French